

# OPEN MEETING ITEM

**COMMISSIONERS**  
BOB STUMP – Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH



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## ARIZONA CORPORATION COMMISSION

RECEIVED

ORIGINAL

DATE: FEBRUARY 25, 2014

2014 FEB 25 P 4 52

DOCKET NOS.: W-02197A-12-0410 AND W-02197A-13-0115

AZ CORP COMMISSION  
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Yvette B. Kinsey. The recommendation has been filed in the form of an Opinion and Order on:

### HUMBOLDT WATER SYSTEMS, INC. (RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MARCH 6, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

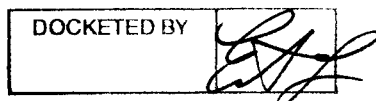
MARCH 11, 2014 and MARCH 12, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

**DOCKETED**

FEB 25 2014



*Jodi A. Jerich*  
JODI JERICH  
EXECUTIVE DIRECTOR

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1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   **COMMISSIONERS**

3   BOB STUMP - Chairman  
4   GARY PIERCE  
5   BRENDA BURNS  
6   BOB BURNS  
7   SUSAN BITTER SMITH

8   IN THE MATTER OF THE APPLICATION OF  
9   HUMBOLDT WATER SYSTEMS, INC. FOR  
10   APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-02197A-12-0410

11   IN THE MATTER OF THE APPLICATION OF  
12   HUMBOLDT WATER SYSTEMS, INC. FOR  
13   APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02197A-13-0115

DECISION NO. \_\_\_\_\_

14                                   **ORDER**

15   Open Meeting  
16   March 11 and 12, 2014  
17   Phoenix, Arizona

18   **BY THE COMMISSION:**

19                                   \*    \*    \*    \*    \*    \*    \*    \*    \*    \*

20           Having considered the entire record herein and being fully advised in the premises, the  
21   Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

22                                   **FINDINGS OF FACT**

23   **Background**

24           1.    On September 20, 2012, in Docket No. W-02197A-12-0410, Humboldt Water  
25   Systems, Inc. ("Humboldt" or "Company") filed an application with the Arizona Corporation  
26   Commission ("Commission") requesting authorization to enter into a \$160,000 loan with the Water  
27   Infrastructure Finance Authority ("WIFA") ("Finance Docket"). The Finance Docket application  
28   stated that the requested financing is necessary for the construction of a new nitrate and arsenic  
treatment facility.<sup>1</sup>

          2    On April 26, 2013, in Docket No. W-02197A-13-0115, Humboldt filed with the  
Commission an application requesting an increase in its water rates and charges, using a test year

<sup>1</sup> Notice of the finance application was given in accordance with the law. *See*, finance application at 3.

1 ("TY") ending October 31, 2012 ("Rate Docket"). Humboldt's rate application requested an increase  
2 of \$45,695 over TY revenues of \$128,942 for total operating revenues of \$174,637.<sup>2</sup>

3 3. On May 6, 2013, Humboldt filed an amendment to its application in the Finance  
4 Docket modifying its request to obtain a WIFA loan in the amount of \$300,000, rather than \$160,000.

5 4. On May 22, 2013, Humboldt filed an amended rate schedule in the Rate Docket.

6 5. On May 28, 2013, the Commission's Utilities Division ("Staff") filed an Insufficiency  
7 Letter in the Rate Docket, stating that Humboldt's rate application had not met the sufficiency  
8 requirements as outlined in the Arizona Administrative Code ("A.A.C.").

9 6. On June 19, 2013, Humboldt docketed additional information in the Rate Docket.

10 7. On June 24, 2013, Staff filed a Letter of Sufficiency in the Rate Docket, stating that  
11 Humboldt's application had met the sufficiency requirements as outlined in the A.A.C., and that  
12 Humboldt had been classified as a Class D utility.<sup>3</sup>

13 8. On July 2, 2013, Staff filed a Motion to Consolidate the Finance Docket and Rate Case  
14 Docket.

15 9. On July 12, 2013, by Procedural Order, the Finance and Rate Case dockets were  
16 consolidated and Staff was directed to file its Staff Report on the consolidated matters on or before  
17 September 6, 2013.

18 10. On September 6, 2013, Staff filed a Request for Extension of time to file its Staff  
19 Report ("Request"). Staff's Request stated that due to Staff's limited resources, additional time, until  
20 September 20, 2013, was needed for Staff to file its Staff Report.

21 11. On September 16, 2013, by Procedural Order, Staff's Request for an extension of time  
22 was granted and the timeclock in this matter was suspended.

23 12. On September 18, 2013, Staff filed its Staff Report recommending approval of both  
24 the finance and rate case applications, with conditions.

25 13. On September 30, 2013, Humboldt filed comments/disagreements to the Staff Report.

26 14. On October 9, 2013, by Procedural Order, Staff was directed to file a response to  
27

28 <sup>2</sup> Notice of the rate application was given in accordance with the law. *See*, Application at 32.

<sup>3</sup> The Commission may decide Class D utility rate cases without a hearing.

1 Humboldt's comments/disagreements on or before October 30, 2013. Further, Humboldt was advised  
2 that it could file a reply to Staff's response on or before November 20, 2013.

3 15. On October 30, 2013, Staff filed a Motion for Extension of time to file a response until  
4 November 8, 2013. Staff indicated that the Company had no objection to Staff's request for an  
5 extension of time.

6 16. On November 12, 2013, Staff filed an Amended Staff Report, responding to the issues  
7 raised in Humboldt's comments/disagreements and Staff continued to recommend approval of the  
8 finance application and approval of Staff's recommended rates and charges in the rate application.

9 17. On December 24, 2013, Staff filed a Notice of Filing Status Report stating that Staff  
10 and Humboldt had engaged in discussions and that Humboldt was in agreement with Staff's  
11 recommendations as outlined in the Amended Staff Report.

12 18. On February 10, 2014, Staff filed a Notice of Errata stating that Staff had failed to  
13 include Attachment A referenced in its December 24, 2013, Notice of Filing Status Report.

14 **Water System/Compliance**

15 19. Humboldt is an Arizona Subchapter S corporation,<sup>4</sup> engaged in the business of  
16 providing water utility services to approximately 315 metered connections.

17 20. Humboldt is a Class D utility and has a CC&N area that encompasses approximately  
18 four square miles and provides water services to the Town of Dewey-Humboldt, located on State  
19 Route 69, approximately 15 miles east of Prescott, in Yavapai County.

20 21. Humboldt's water system consists of two wells pumping a total yield of 125-130  
21 gallons per minute ("gpm"); one 65,000 gallon storage tank; a booster system with two booster  
22 pumps; and a distribution system comprised of 34,700 feet of water main lines.

23 22. Staff concluded that based on the number of customers Humboldt serves and its peak  
24 demand, the water system has adequate production and storage capacity to serve its present customer  
25 base and reasonable growth.

26 ...

27 <sup>4</sup> A Subchapter S corporation is a domestic corporation with 100 or fewer shareholders and is taxed as a partnership,  
28 allowing any profits earned by the corporation to be taxed at the shareholders level rather than the corporate level.  
Investopedia.Com, <http://www.investopedia.com/dictionary/dictionary/terms/s/subchapters>.

23. During the test year, Humboldt reported 24,705,000 gallons of water pumped and 21,889,000 gallons sold, resulting in a non-account water loss of 11.4 percent.<sup>5</sup>

24. Staff recommends a non-account water loss of no greater than 10 percent. Staff recommends that Humboldt continue to coordinate its reading of its well meters and individual customer meters on a monthly basis and report its data in the Company's Commission Annual Report on a going forward basis. Staff further recommends that, in the event the water loss reported in any future Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. Staff further recommends that in no case shall the Company allow water loss to be greater than 15 percent. Staff recommends that the water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than April 30 of the year following the excessive water loss.

25. Based on a compliance report issued on June 7, 2013, the Arizona Department of Environmental Quality ("ADEQ") determined that Humboldt's water system has major deficiencies and that ADEQ cannot determine if the Company's water system is currently delivering water that meets water quality standards required by the 40 CFR 141 and the A.A.C.

26. According to Staff, sample results for Humboldt's water system exceed ADEQ maximum contaminate levels ("MCLs") for arsenic and nitrates.<sup>6</sup> Humboldt's financing application requests authorization to obtain a WIFA loan to finance a treatment plant to reduce the arsenic and nitrates in the Company's water system.

27. Humboldt's CC&N area is located within the Prescott Active Management Area ("AMA"). Humboldt is in compliance with departmental requirements governing water providers and/or community water systems.<sup>7</sup>

28. The Commission's Utilities Division Compliance Section reports no delinquent compliance issues for the Company.

<sup>5</sup> Application at 4.

<sup>6</sup> Staff Engineering Report at 9.

<sup>7</sup> ADWR Water Compliance Report dated May 1, 2013.

1        29. Humboldt is in good standing with the Commission's Corporation Division.

2        30. The Commission's Consumer Services reported that one complaint for quality of  
3 service was filed in 2010; one complaint for billing in 2012; and six complaints for various issues in  
4 2013, including two opinions in opposition to the Company's rate application. According to Staff, all  
5 complaints have been resolved and closed.

6        31. The Company provided documentation showing it was current on its property and  
7 sales taxes.<sup>8</sup>

8        32. Humboldt has approved Curtailment and Backflow Prevention tariffs on file with the  
9 Commission.

10       33. Humboldt has not had significant growth in its service area. Humboldt's Annual  
11 Reports show that between 2006 and 2009 the Company's customer based declined and that  
12 Humboldt has averaged only one new connection per year since 2009. Staff concludes that Humboldt  
13 may be serving approximately 327 connections by 2016.<sup>9</sup>

14       34. Staff recommends that Humboldt file with Docket Control, as a compliance item in  
15 this docket, within 90 days of the effective date of this Decision, at least three Best Management  
16 Practices ("BMPs") in the form of tariffs that substantially conform to the templates (located on the  
17 Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>) created by Staff, for the  
18 Commission's review and consideration. Further, Humboldt shall, at a maximum, choose no more  
19 than two of the Best Management Practices from the Public Awareness/Public Relations or Education  
20 and Training categories and the Company may request cost recovery of actual costs associated with  
21 the implementation of the BMPs in its next general rate application.

22       35. The Company does not oppose Staff's recommendations regarding its water system  
23 compliance or the implementation of the BMPs.<sup>10</sup>

24       36. Staff's recommendations are reasonable and should be adopted.

25       ...

27       <sup>8</sup> Application at 113.

28       <sup>9</sup> Staff Engineering Report at 9.

<sup>10</sup> Staff's Notice of Errata filed February 10, 2014.

**Rate Application**

37. Humboldt is currently operating under rates and charges established in Decision No. 61529 (February 19, 1999).

38. Humboldt has filed an application for a permanent rate increase, using a TY ending October 31, 2012.

39. Various consumer comments were filed in the consolidated dockets in opposition and in support of Humboldt's rate application.

40. Staff recommends approval of Humboldt's rate application, using Staff's recommended rates and charges.<sup>11</sup>

41. The rates and charges for the Company at present, as proposed in the rate and finance applications, and as recommended by Staff are as follows:

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8" x 3/4" Meter	\$21.55	\$29.50	\$22.50
3/4" Meter	21.55	29.50	22.50
1" Meter	27.35	35.35	56.25
1 1/2" Meter	37.35	46.35	112.50
2" Meter	43.35	52.35	180.00
3" Meter	61.60	69.60	360.00
4" Meter	121.60	129.60	562.50
6" Meter	601.60	609.60	1,125.00

**COMMODITY CHARGES (per 1,000 gallons)**

	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<b><u>All Meter Sizes</u></b>			
First Tier – 0 to 1,000 Gallons	-	N/A	N/A
Second Tier – Over 1,000 Gallons	\$2.50	N/A	N/A
<b><u>All Meter Sizes</u></b>			
First Tier - 0 to 3,000 Gallons	N/A	\$3.25	N/A
Second Tier – 3,001 to 10,000 Gallons	N/A	4.25	N/A
Third Tier – Over 10,000 Gallons	N/A	6.25	N/A
<b><u>All Meter Sizes</u></b>			
First Tier – 0 to 3,000 Gallons	N/A	N/A	\$2.00
Second Tier – 3,001 to 10,000 Gallons	N/A	N/A	3.10
Third Tier – Over 10,000 Gallons	N/A	N/A	4.70

<sup>11</sup> On September 18, 2013, Staff filed its initial Staff Report recommending approval of Humboldt's rate application. On November 6, 2013, Staff filed a Supplemental Staff Report continuing to recommend approval of Humboldt's rate application and responding to Humboldt's comments/disagreements with the initial Staff Report.

**SERVICE LINE AND METER INSTALLATION CHARGES:**

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended Charges</u>		
		<u>Service Line &amp; Meter Charges</u>	<u>Service Line Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$330	\$660	\$490	\$170	\$660
3/4 " Meter	375	660	420	240	660
1" Meter	440	880	538	342	880
1-1/2" Meter	660	1,200	614	586	1,200
2" Turbine Meter	1,155	2,500	1,107	1,393	2,500
2" Compound Meter	-	-	-	-	-
3" Turbine Meter	1,625	3,500	-	-	ICB*
3" Compound Meter	-	-	-	-	-
4" Turbine Meter	2,540	4,250	-	-	ICB*
4" Compound Meter	-	-	-	-	-
6" Turbine Meter	4,875	6,500	-	-	ICB*
6" Compound Meter	-	-	-	-	-

\* ICB= Individual Case

Bases

Note: Meter charge includes meter box or vault.

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<b>SERVICE CHARGES:</b>			
Establishment	\$15.00	\$45.00	\$35.00
Establishment (After Hours)	25.00	N/A	N/A
Reconnection (Delinquent)	25.00	45.00	35.00
Reconnection (Delinquent - After hours)	NT	NT	NA
Meter Test (If Correct)	25.00	65.00	30.00
Deposit	*	*	*
Deposit Interest Per Annum	*	*	*
Re-Establishment (Within 12 months)	**	**	**
NSF Check	\$15.00	\$25.00	\$25.00
Deferred Payment Per Month	N/A	1.50%	1.50%
Meter Re-Read (If Correct)	\$10.00	\$45.00	\$20.00
Late Charge per month	N/A	1.50%	1.50%
Service Charge After Hours	N/A	\$65.00	\$40.00

**Monthly Service Charge for Fire Sprinkler**

4" or Smaller	\$0.00	\$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

\* Per Commission Rule R14-2-403(D).

\*\* Number of months off system times the monthly minimum R14-2-403(D).

\*\*\* 2.00% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.



42. Humboldt's rate application states that the Company had TY revenues of \$128,942, expenses of \$149,983, resulting in operating income of negative \$21,041, which based on the Company-reported original cost rate base ("OCRB") of \$216,781, resulted in no rate of return.<sup>12</sup>

43. Staff made an upward adjustment of \$1,784 to Metered Water Revenues resulting in total TY revenues of \$130,726, expenses of \$138,262, and an operating loss of \$7,536, which based on Staff-adjusted OCRB of \$204,018, results in no rate of return.<sup>13</sup>

44. Humboldt's rate application proposes total operating revenues of \$174,637, an increase of \$45,695 or 35.44 percent over the TY revenues of \$128,942.<sup>14</sup>

45. Staff recommends total operating revenues of \$161,445, an increase of \$30,719 or 23.50 percent over Staff-adjusted TY revenues of \$130,726.<sup>15</sup>

#### **Rate Base**

46. Humboldt did not propose a fair value rate base ("FVRB") that differs from its OCRB of \$216,781.

47. Staff made net adjustments of \$12,763 to Humboldt's proposed OCRB, resulting in a decrease in OCRB from \$216,781 to \$204,018.<sup>16</sup>

48. Staff's adjustments to Plant-In-Service reflect an overall increase of \$1,114, from \$524,966 to \$526,080.<sup>17</sup> Staff's adjustments to Plant-In-Service include an increase in Land and Land Rights, from \$6,050 to \$6,650, to reflect Staff's updated and supported plant; an increase in Wells and Springs, from \$14,158 to \$34,339, to reflect post TY plant deemed to be used and useful;<sup>18</sup> an increase in Power Generation Equipment from \$0 to \$79,092, to reflect the transfer of \$79,092

<sup>12</sup> Staff Supplemental Schedule BCA-1.

<sup>13</sup> Staff Supplemental Schedule BCA-1.

<sup>14</sup> By Staff's calculation, the Company's proposed revenues would result in total revenues of \$206,621 and not the Company's reported \$174,637. See, Staff's Supplemental Schedule BCA-1.

<sup>15</sup> Staff Supplemental Schedule BCA-1.

<sup>16</sup> Staff Supplemental Schedule BCA-1.

<sup>17</sup> Staff Supplemental Schedule BCA-2.

<sup>18</sup> During Staff's site visit, Staff noted that the Company had made two post TY plant additions that included replacing a well pump at Well #2 and replacing booster pumps and well improvements to Well #1. The total cost for the improvements was \$20,181. Staff verified that these plant items had been placed in-service and that they were available and being used to serve customers. Staff also moved \$79,092 invested by the Company for a Solar Generating Plant to a new Power Generation Equipment-Solar System account, to comply with National Association of Regulatory Utility Commissioners ("NARUC") requirements.

1 from Other Plant and Miscellaneous Equipment to Power Generation; a decrease in Meter and Meter  
 2 Installation, from \$36,235 to \$16,568, to reflect unsupported plant retirements and inappropriate  
 3 accounting treatment of retirements; and a decrease in Other Plant and Miscellaneous Equipment,  
 4 from \$ \$79,092 to \$0, to reflect the transfer of \$79,092 from Other Plant and Miscellaneous  
 5 Equipment to Power Generation.<sup>19</sup>

6 49. Staff adjustments to OCRB include an increase in accumulated depreciation by  
 7 \$27,569, from \$265,732 to \$293,301.<sup>20</sup> Staff states that it applied Commission approved depreciation  
 8 rates and made adjustments to Humboldt's accumulated depreciation to reflect balances approved in  
 9 the Company's last rate case, reflecting plant additions, and retirements identified by Staff.<sup>21</sup>

10 50. Staff also made an adjustment to the Amortization of Contributions in Aid of  
 11 Construction ("CIAC") account, increasing it from \$0 to \$1,483, to reflect the amortization of CIAC  
 12 during the TY.<sup>22</sup>

13 51. Humboldt did not request a working capital allowance or claim one during the TY.  
 14 Staff adjusted OCRB to calculate a cash working capital allowance for Humboldt using the formula  
 15 method.<sup>23</sup> Staff's adjustments provide a total working cash capital allowance of \$12,209, to reflect  
 16 Staff's recommendations for purchased power and purchased water and for Staff's recommended  
 17 operation and maintenance expense.<sup>24</sup> Staff has previously stated that, for Class D and E utilities,  
 18 Staff recommends that the utilities have a cash working capital allowance to meet operating cost  
 19 needs before collections are received.<sup>25</sup>

20 52. Humboldt does not oppose Staff's adjustments to OCRB.<sup>26</sup> Staff's adjustments to  
 21 OCRB are reasonable and we find that Humboldt's OCRB is \$204,018. Humboldt did not request a  
 22

23 <sup>19</sup> Staff Supplemental Schedule BCA-2.

24 <sup>20</sup> Staff Supplemental Schedule BCA-2.

24 <sup>21</sup> Staff Report at 6.

25 <sup>22</sup> Staff Supplemental Schedule BCA-2.

25 <sup>23</sup> The formula method equals  $1/8^{\text{th}}$  of the operating expenses less depreciation, taxes, purchased power and purchase  
 26 water expenses.

26 <sup>24</sup> Staff's calculation of (1/24 Purchase Power & Water) results in a cashing working capital of \$620 and Staff's  
 27 calculation of (1/8 Operation & Maintenance Expense) results in a cashing working capital of \$11,589, for a total cash  
 27 working capital of \$12,209. *See*, Staff Supplemental Schedule BCA-2 at 5.

27 <sup>25</sup> *See*, Decision No. 74299 (January 29, 2014).

28 <sup>26</sup> Staff's Notice of Errata docketed February 10, 2014.

Reconstruction Cost New Rate Base, and therefore Humboldt's FVRB is equivalent to its OCRB, or \$204,018.

### Operating Income

53. Humboldt's application proposes total operating revenues of \$174,637, an increase of \$45,695, over the Company's adjusted TY revenue of \$128,942. Staff recommends total base revenues of \$161,445, an increase of \$30,719, over Staff adjusted TY revenue of \$130,726.

54. Staff recommends a net decrease of \$11,721 in TY operating expenses of \$149,983 to \$138,262. Staff adjustments include:

- a. Increasing Metered Water Revenue by \$1,784 from \$127,797 to \$129,581, to reflect Staff's calculation of metered water revenue using the billing determinants provided by Humboldt.
- b. Decreasing Outside Services by \$12,635 from \$70,335<sup>27</sup> to \$57,000, to reflect Staff's recommendation that a typical management fee rate of \$15 per customer is reasonable for a company of Humboldt's size.
- c. Decreasing Water Testing by \$509 from \$4,437 to \$3,928, to reflect the water testing expense reflected in the Company's Annual Report.
- d. Increasing Rate Case Expense by \$2,106 from \$0 to \$2,106, to reflect the normalized amount of rate case expense based on three years between rate cases.
- e. Increasing Miscellaneous Expense by \$315 from \$0 to \$315, to reflect the cost of miscellaneous water testing expense.
- f. Decreasing Depreciation Expense by \$2,892 from \$25,823 to \$22,931, to reflect Staff's recommended depreciation rates to Staff's recommended plant balances.
- g. Increase Property Tax Expense by \$1,894 from \$5,846 to \$7,740, to reflect the calculation of the Arizona Department of Revenue ("ADOR") property tax method.<sup>28</sup>

55. Humboldt does not oppose Staff's adjustments to operating expenses.<sup>29</sup>

56. Staff's adjustments to operating income are reasonable and should be adopted. Further, we find that Humboldt had an operating loss of \$7,536 on operating revenues of \$130,726, and adjusted TY expenses of \$138,262.

...

<sup>27</sup> The Company's application actually proposed Outside Services Expense of \$60,958.

<sup>28</sup> Staff Supplemental Schedule BCA-3 at 1-4.

<sup>29</sup> Staff Notice of Errata dated February 10, 2014.

1 **Revenue Requirement**

2 57. Humboldt requested revenues of \$174,637, which yields an operating income of  
3 \$24,654, resulting in an 11.37 percent return on FVRB and a 14.12 percent operating margin.

4 58. Staff recommends a base revenue requirement of \$161,455, which yields an operating  
5 income of \$20,368, resulting in a 9.98 percent return on FVRB and a 12.62 percent operating  
6 margin.<sup>30</sup> Staff's total base revenue of \$161,445, provides an increase of \$30,719, or 23.50 percent  
7 over Staff's adjusted test year revenue of \$130,726.<sup>31</sup> Staff believes its recommended increase will  
8 provide Humboldt with adequate cash flow to meet its normal operating expenses, maintain its water  
9 system, and fund contingencies.<sup>32</sup>

10 59. Humboldt agrees with Staff's recommended base revenue requirement.<sup>33</sup> We find that  
11 Staff's recommended total base revenue requirement is reasonable. Therefore, Humboldt has a total  
12 base revenue requirement of \$161,455.

13 **Rate Design**

14 60. Staff agrees with Humboldt's proposed inverted three-tier commodity rate structure  
15 for all customers, with break over points at zero to 3,000 gallons, 3,001 to 10,000 gallons, and over  
16 10,000 gallons.<sup>34</sup>

17 61. Currently, Humboldt charges the same rate for its 5/8 x 3/4 inch and 3/4-inch meters  
18 sizes. Humboldt stated in its comments/disagreements with the Staff Report that both are residential  
19 meters and have no effect on the cost of service to its customers.<sup>35</sup> Humboldt states that if Staff's  
20 proposed rates go into effect, "neighbors will compare rates and will be upset to find they are being  
21 charged more than their neighbor for potentially less usage."<sup>36</sup>

22 62. Staff considered the Company's comments and now supports rates that do not  
23 distinguish between the two meter sizes.<sup>37</sup>

24 \_\_\_\_\_  
25 <sup>30</sup> Staff Supplemental Schedule BCA-1.

26 <sup>31</sup> Staff Supplemental Schedule BCA-1.

27 <sup>32</sup> Staff Supplemental Staff Report at 5.

28 <sup>33</sup> Staff Notice of Errata docketed February 10, 2014.

<sup>34</sup> Staff Supplement Schedule BCA-4.

<sup>35</sup> Response and Comments to Staff Report dated September 30, 2014.

<sup>36</sup> Response and Comments to Staff Report dated September 30, 2014.

<sup>37</sup> Staff Supplemental Staff Report at 2.

63. Humboldt's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill, with a median usage of 3,654 gallons from \$28.18 to \$42.02, for an increase of \$13.84 or 49 percent.<sup>38</sup> Staff's recommended rates for the same size meter and the same median usage would increase rates from \$28.18 to \$30.52, for an increase of \$2.34 or 8.3 percent.<sup>39</sup>

64. The Company proposes an increase to its Establishment Charge from \$15 to \$45; an increase in Reconnection (delinquent) charge from \$25 to \$45; an increase in Meter Test (if correct) from \$25 to \$65; an increase in Meter Reread (if correct) from \$10 to \$45; an increase in After Hours Service Charge from \$0 to \$65; and an increase for NSF Check from \$15 to \$25.<sup>40</sup>

65. Staff recommends an increase in Humboldt's Establishment Charge from \$15 to \$35; an increase in Reconnection (delinquent) charge from \$25 to \$35; an increase in Meter Test (if correct) from \$25 to \$30; and an increase in Meter Reread (if correct) from \$10 to \$20.<sup>41</sup> Staff agrees with the Company's proposed charge for NSF Check.<sup>42</sup>

66. Staff also recommends the elimination of the After Hours Service Charge and recommends a Service Charge (after hours) tariff in the amount of \$40. Staff states the Service Charge (after hours) fee will be charged in addition to the charge for any utility service provided after hours at the customers' request.

67. Humboldt does not oppose Staff's recommended rates and charges.<sup>43</sup> Therefore, we find Staff's recommended rates and charges reasonable and we will adopt them.

#### **Finance Application**

68. Humboldt's amended finance application seeks approval to obtain a 20-year amortizing loan, at a rate of 4.5 percent interest in the amount of \$300,000,<sup>44</sup> to fund the engineering, procurement, installation, and operation of a treatment plant to reduce nitrates and arsenic in its water system to meet the United States Environmental Protection Agency ("USEPA") and ADEQ

<sup>38</sup> The Company's proposed rates do not include a WIFA loan surcharge.

<sup>39</sup> Staff's proposed rates do not include a WIFA loan surcharge.

<sup>40</sup> Application at 11.

<sup>41</sup> Staff Supplemental Schedule BCA-4.

<sup>42</sup> Staff Supplement Schedule BCA-4.

<sup>43</sup> Staff Notice of Errata docketed February 10, 2014.

<sup>44</sup> Staff's calculation for the estimated amounts needed is \$301,528 and that amount was used in Staff's analysis.

1 Maximum Contaminant Level ("MCL") requirements.<sup>45</sup> Humboldt's request also includes approval  
 2 to construct a new building to house the treatment plant as well as the addition of a new booster  
 3 station and installation of an isolation valve for its distribution system.<sup>46</sup>

4 69. According to Staff, ADEQ issued a Notice of Violation to the Company on July 23,  
 5 2012, stating, among other things, that Humboldt's water sample results exceeded the EPA's MCLs  
 6 for both arsenic and nitrates. The Company informed Staff that it has corrected all of the other  
 7 deficiencies described in the NOV, with the exception of constructing the treatment plant and  
 8 obtaining the Approval to Construct ("ATC") for the treatment plant.<sup>47</sup>

9 70. Staff reviewed the Company's proposed costs, attached hereto as Exhibit A, related  
 10 to the treatment plant and concluded that they are appropriate, but Staff made no determination that  
 11 the proposed projects are used and useful and stated that no particular treatment should be inferred  
 12 for rate making or rate base purposes in the future.

13 71. Staff recommends that Humboldt file with Docket Control, as a compliance item in  
 14 this docket, within eighteen (18) months of the effective date of a Decision in this matter, the ADEQ  
 15 Approval of Construction ("AOC") for the arsenic/nitrate treatment system.

16 72. Humboldt proposes obtaining financing for its treatment plant through WIFA.<sup>48</sup>

17 73. Humboldt requests that the Commission approve an Arsenic Cost Recovery Method  
 18 ("ACRM") to offset the additional debt service on the WIFA loan, at a rate of \$1,000 per month or  
 19 approximately \$3 per customer.<sup>49</sup>

20 74. Under Humboldt's proposal, a typical residential 5/8 x 3/4-inch meter would see an  
 21 increase of \$13.84, in addition to the Company's proposed base rate of \$42.03.<sup>50</sup>

22 75. Staff determined that at the conclusion of the TY, Humboldt had a capital structure  
 23 that included \$19,567 long-term debt,<sup>51</sup> no short term debt, and no common equity.<sup>52</sup> Staff states that

24 \_\_\_\_\_  
 25 <sup>45</sup> Humboldt Finance Application.

26 <sup>46</sup> Humboldt Amended Finance Application.

27 <sup>47</sup> Staff Engineering Report at 9.

28 <sup>48</sup> Humboldt Amended Finance Application.

<sup>49</sup> Finance Application at 2.

<sup>50</sup> Staff Schedule BCA-5.1.

<sup>51</sup> In Decision No. 61166 (October 8, 1998), the Commission authorized Humboldt to borrow \$60,000 from WIFA to finance to the replacement of its 5-inch steel main and to install a 65,000 gallon storage tank. However, WIFA only

1 the proposed financing will give Humboldt a pro forma capital structure with the surcharge, including  
 2 principal and interest, of \$9,517 or 3 percent in short-term debt; \$311,578 or 97 percent in long-term  
 3 debt; and zero percent in equity.<sup>53</sup>

4 76. Staff concluded that its recommended base revenues would not provide sufficient  
 5 earnings and cash flow for Humboldt to meet its long-term debt obligation under the WIFA loan.<sup>54</sup>  
 6 Staff proposes implementing a surcharge mechanism to calculate additional debt service (principal  
 7 and interest) on the WIFA loan. Using the surcharge mechanism, Staff estimates that the debt  
 8 service payments on a 20-year amortizing loan, at 4.5 percent interest, will be \$22,891 annually.<sup>55</sup>  
 9 Staff estimates that the WIFA surcharge for a typical residential 5/8 x 3/4-inch meter will increase  
 10 the monthly bill by \$5.45. Including Staff's estimated WIFA surcharge, a customer with a typical  
 11 residential 5/8 x 3/4-inch meter would see an overall increase of \$7.79 per month, over current base  
 12 rates of \$28.18, for a total of \$35.97.<sup>56</sup>

13 77. Based on Staff's pro forma calculations, Staff increased total operating revenues by  
 14 \$22,891 from Staff adjusted base revenues of \$161,445 to \$184,336, to cover the debt service.<sup>57</sup> Staff  
 15 also made pro forma adjustments to Staff adjusted operating expenses and increased property taxes  
 16 from \$7,740 to \$8,159; income taxes from \$2,815 to \$3,802, which results in total operating expenses  
 17 of \$142,483, and an operating income of \$41,853.<sup>58</sup> Staff included pro forma adjustments to the  
 18 interest expense on long-term debt from \$0 to \$14,559, and included an annual principal repayment  
 19 amount of \$11,678.<sup>59</sup>

20 78. Humboldt expressed concerns that Staff's recommended surcharge did not include  
 21 additional operation and maintenance ("O&M") costs (i.e., filtration media, additional chemical  
 22

23  
 24 approved the Company to borrow \$39,500. The long term debt referred to in the TY is the remaining balance on the  
 \$39,500 loan.

25 <sup>52</sup> Staff Supplemental Schedule BCA-6.

26 <sup>53</sup> Staff Supplemental Schedule BCA-6.

27 <sup>54</sup> Staff Report at 9.

28 <sup>55</sup> Staff Supplemental Schedule BCA-7.

<sup>56</sup> Staff Schedule BCA-5.1.

<sup>57</sup> Staff Supplemental Schedule BCA-9.

<sup>58</sup> Staff Supplemental Schedule BCA-9.

<sup>59</sup> Staff Supplemental Schedule BCA-9.

costs, and hazardous waste disposal) once the treatment plant is completed.<sup>60</sup> Humboldt also stated that Staff's recommended surcharge should include a 3 to 5 percent increase in revenues to cover costs when customers don't pay their bills on time or discontinue service with paying their final bills.

79. Although Staff acknowledged that the costs for operating the nitrate and arsenic treatment plant are not included in Staff's estimates for the WIFA surcharge and that those expenses can be significant, Staff believes it would be inappropriate to manipulate the return on rate base to provide for coverage of those costs because they are not known and measurable. However, Staff proposed allowing the Company to recover the additional O&M costs for the treatment plant through an additional \$1 monthly minimum charge and an additional ten cent commodity charge, after the treatment plant is built and the Approval of Construction ("AOC") is obtained from ADEQ.<sup>61</sup>

80. Staff states that after the plant is built, the combined base revenue, with the estimated WIFA surcharge revenue and estimated O&M surcharge, will increase the typical residential 5/8 x 3/4-inch meter monthly bill by \$9.16 or 32.5 percent, from current rates of \$28.18 to \$37.34.<sup>62</sup>

81. Further, Staff states that its recommendation to adopt a surcharge mechanism is in lieu of any bad debt expense allowance (i.e., customer's not paying bills on time or discontinuing service without paying a final bill) which Staff believes was not substantiated by the Company.<sup>63</sup>

82. Staff's proposed estimated WIFA surcharge (including estimated O&M surcharge), would result in a debt service coverage ratio ("DSC") of 2.61.<sup>64</sup> A DSC ratio represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC of greater than 1.0 indicates that cash flow from operations is sufficient to cover expected debt service. A DSC of less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is necessary to preclude default on the debt obligation.

<sup>60</sup> Response to Staff Report at 3.

<sup>61</sup> Staff Supplemental Staff Report at 3.

<sup>62</sup> Staff Supplemental Staff Report at 6.

<sup>63</sup> Staff Supplemental Staff Report at 3.

<sup>64</sup> Staff Supplemental BCA-9 states a DSC of 2.47; however, the DSC is actually 2.61.



1       83.    The Company does not oppose Staff's recommendations regarding approval of the  
2 finance application and adoption of the WIFA loan surcharge mechanism and the arsenic O&M  
3 surcharge mechanism.<sup>65</sup>

4       84.    The Company and Staff agree that there are certain O&M costs associated with the  
5 construction and maintenance of the arsenic/nitrate plant that are not known and measurable at this  
6 time and the parties acknowledge that those costs can be significant.

7       85.    In Decision No. 66400 (October 14, 2003), the Commission approved and adopted an  
8 Arsenic Cost Recovery Mechanism ("ACRM") for Arizona Water Company to recover capital costs  
9 incurred between rate cases associated with the installation of arsenic treatment facilities needed to  
10 comply with revised rules implemented by the USEPA that mandated reduced levels of arsenic in  
11 drinking water throughout the United States.

12       86.    Substantially similar ACRMs have been adopted by the Commission in subsequent  
13 cases for a number of other Arizona water companies affected by the USEPA's revised arsenic  
14 standards.

15       87.    In previous cases, in which no WIFA surcharge mechanism is implemented, Staff has  
16 stated that the purpose of an ACRM is to permit recovery of the capital and operating costs of  
17 providing arsenic remediation once the plant is in place and when the in-service date occurs  
18 subsequent to the end of the test year.<sup>66</sup> However, because a WIFA loan surcharge has been  
19 approved herein, Humboldt will not be allowed to recover any capital costs associated with  
20 construction of the treatment facility.

21       88.    Although the Company agreed to Staff's proposed \$1.00 monthly surcharge and 10  
22 cent commodity charge to recover additional O&M costs associated with the treatment plant, we find  
23 that the implementation of an ACRM is the appropriate means of enabling the Company to seek  
24 recovery of O&M expenses related to the treatment facility on a going forward basis, and recovery of  
25 O&M deferred for up to twelve months. Decision No. 66400 defined the types of deferred and  
26

27 \_\_\_\_\_  
28 <sup>65</sup> Staff's Notice of Errata docketed February 10, 2014.

<sup>66</sup> Staff Report Docket No. 03443A-08-0177.

1 recoverable O&M expenses as: 1) media replacement or regeneration costs; 2) media replacement or  
2 regeneration service costs; 3) and waste media or regeneration disposal costs.

3       89. The "recoverable O&M expenses" will be eligible for recovery through the ACRM as  
4 follows: 1) costs that have been incurred and deferred in the 12 months prior to the ACRM filing; and  
5 2) costs that will continue to be incurred after the ACRM filing. The deferred costs would be  
6 recovered through a twelve-month surcharge, while recurring costs would be recovered through an  
7 adjustment in base rates. However, the Company will not be entitled to recover interest or financing  
8 charges associated with the deferred balance. With respect to timing, the deferral of recoverable  
9 O&M expenses will begin upon operation of the arsenic treatment facility, and will continue until the  
10 Company makes an ACRM filing seeking recovery of the deferred recoverable O&M expenses. This  
11 treatment addresses our concern that recoverable O&M expenses should be known and measurable  
12 rather than estimates

13       90. A component of the ACRM process is the "earnings test". The earnings test permits  
14 water companies to increase rates only to the extent that the resulting operating income does not  
15 result in a return on rate base in excess of the authorized return approved in the rate case authorizing  
16 implementation of an ACRM.<sup>67</sup>

17       91. To ensure that all plant and the associated costs are included in rate base and captured  
18 in the Company's rates, Humboldt should be required to file its next general rate case within three  
19 years of this Decision.

20       92. In addition to collection of its regular rates and charges, Humboldt may collect from  
21 its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-  
22 2-409.D.

23       93. Because an allowance for the property tax expense is included in the Company's rates  
24 and will be collected from its customers, the Commission seeks assurances from the Company that  
25 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has  
26 come to the Commission's attention that a number of water companies have been unwilling or unable  
27

28 <sup>67</sup> Decision No. 66400 at 13.

1 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as  
 2 twenty years. It is reasonable, therefore, that Humboldt should annually file, as part of its annual  
 3 report, an affidavit with the Utilities Division attesting that the Company is current in paying its  
 4 property taxes in Arizona.

### 5 CONCLUSIONS OF LAW

6 1. Humboldt is a public service corporation within the meaning of Article XV of the  
 7 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, and 40-303.

8 2. The Commission has jurisdiction over Humboldt and the subject matter of the rate and  
 9 finance applications.

10 3. Notice of the rate and finance applications were given in accordance with the law.

11 4. The rates and charges authorized herein are just and reasonable and should be  
 12 approved without a hearing.

13 5. The financing approved herein is for lawful purposes, within Humboldt's corporate  
 14 powers, is compatible with the public interest, with sound financial practices, and with the proper  
 15 performance by Humboldt as a public service corporation, and will not impair Humboldt's corporate  
 16 ability to perform that service.

17 6. The financing approved herein is for the purposes stated in the financing application  
 18 and is reasonably necessary for those purposes, and such purposes are not, wholly, or in part,  
 19 reasonably chargeable to operating expenses or to income.

20 7. Approval of the arsenic cost recovery mechanism is consistent with the Commission's  
 21 authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

22 8. Staff recommendations, as modified herein, are reasonable and should be adopted.

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**ORDER**

IT IS THEREFORE ORDERED Humboldt Water Systems, Inc., shall file by March 31, 2014, revised rate schedules setting forth the following rates and charges:

**MONTHLY USAGE CHARGE:**

5/8" x 3/4" Meter	\$22.50
3/4" Meter	22.50
1" Meter	56.25
1-1/2" Meter	112.50
2" Meter	180.00
3" Meter	360.00
4" Meter	562.50
6" Meter	1,125.00

**COMMODITY CHARGES: (Per 1,000 Gallons)****All Meter Sizes**

First Tier – 0 – 3,000 Gallons	\$2.00
Second Tier – 3,001 – 10,000 Gallons	3.10
Third Tier – Over 10,000 Gallons	4.70

**SERVICE LINE AND METER INSTALLATION CHARGES:**

	<u>Service</u> <u>Line</u>	<u>Meter</u> <u>Installation</u>	<u>Total</u>
5/8" x 3/4 " Meter	\$490.00	\$170.00	\$660.00
3/4 " Meter	420.00	240.00	660.00
1" Meter	538.00	342.00	880.00
1-1/2" Meter	614.00	586.00	1,200.00
2" Turbine Meter	1,107.00	1,393.00	2,500.00
3" Turbine Meter	-	-	ICB*
4" Turbine Meter	-	-	ICB*
6" Turbine Meter	-	-	ICB*

**SERVICE CHARGES:**

Establishment	\$35.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest Per Annum	*
Re-Establishment (Within 12 months)	**
NSF Check	\$25.00
Deferred Payment Per Month	1.50%
Meter Re-Read (If Correct)	\$20.00
Late Charge per month	1.50%
Service Charge (After Hours)	\$40.00

**MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER**

4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

\* Per Commission Rule R14-2-403(D).

\*\* Number of months off system times the monthly minimum R14-2-403(D).

\*\*\* 2.00% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the revised schedule of rates and charges shall be effective for all service rendered on and after April 1, 2014.

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Humboldt Water Systems, Inc., may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., is authorized to obtain a 20-year amortizing loan through the Water Infrastructure Finance Authority of Arizona for an amount not to exceed \$301,528, and an interest rate not to exceed the current Water Infrastructure Finance Authority subsidized rate at the time the loan is executed, to finance the nitrate and arsenic treatment facilities described herein.

IT IS FURTHER ORDERED that the financing authority granted herein is expressly contingent on Humboldt Water Systems, Inc.'s use of the proceeds to finance the arsenic treatment facility described herein.

IT IS FURTHER ORDERED that Humboldt Water Systems, Inc. is authorized to engage in any transactions and execute any documents necessary to effectuate the financing authorizations granted herein.

IT IS FURTHER ORDERED that a Water Infrastructure Finance Authority surcharge mechanism is authorized to meet Humboldt Water Systems Inc.'s principal and interest obligations on the loan as described herein.

IT IS FURTHER ORDERED that upon the filing of the loan closing notice, Humboldt Water Systems, Inc., may file in this docket, a Water Infrastructure Finance Authority loan surcharge tariff

1 application requesting implementation of the associated surcharge. The application shall follow the  
2 same methodology presented in the Staff Report to calculate the additional revenue needed to meet its  
3 loan obligations, using the actual loan terms, and the actual number of customers at the time of loan  
4 closing, and using the result of that calculation to develop its surcharge tariff application. The  
5 increase in revenue calculation should be included in the surcharge tariff application.

6 IT IS FURTHER ORDERED that the actual amount of the surcharge shall be calculated  
7 based upon the actual amount of the Water Infrastructure Finance Authority loan and the actual  
8 number of customers at the time of the loan closing.

9 IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., is hereby authorized to  
10 implement the Arsenic Cost Recovery Mechanism to only recover operations and maintenance  
11 expenses (i.e., media replacement or regeneration costs, media replacement or regeneration service  
12 costs, and waste media or regeneration disposal) associated with the operation of the arsenic  
13 treatment facility once it is in operation.

14 IT IS FURTHER ORDERED Staff is directed to conduct an earnings test once Humboldt  
15 Water Systems, Inc. files its documentation for implementation of the arsenic recovery surcharge.

16 IT IS FURTHER ORDERED that upon approval of the by the Water Infrastructure Financing  
17 Authority for long-term financing for Humboldt Water Systems, Inc.'s arsenic treatment facility, and  
18 Humboldt's filing of the appropriate Water Infrastructure Financing Authority loan documentation,  
19 Staff shall calculate the actual arsenic cost recovery mechanism surcharge and file the appropriate  
20 surcharge amount to be collected from Humboldt's customers according to their meter size.

21 IT IS FURTHER ORDERED that the arsenic cost recovery mechanism surcharge rates shall  
22 not go into effect until the first day of the month following Staff's filing and notice has been provided  
23 by Humboldt Water Systems, Inc. to its customers in a form acceptable by Staff.

24 IT IS FURTHER ORDERED that this docket shall remain open to facilitate implementation  
25 of the Arsenic Cost Recovery Mechanism described herein.

26 IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., shall file as a compliance  
27 item in this docket, within thirty (30) days of the execution of any financing transaction authorized  
28 herein, a notice confirming that such execution has occurred and a certification by an authorized

1 Company representative that the terms of the financing fully comply with the authorizations granted.

2 IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., shall provide to Staff, upon  
3 request, a copy of any loan documents executed pursuant to the authorizations granted herein.

4 IT IS FURTHER ORDERED that approval of the Water Infrastructure Financing Authority  
5 surcharge shall be rescinded if Humboldt Water Systems, Inc. has not drawn funds from the Water  
6 Infrastructure Finance Authority loan within one year of the date of this Decision.

7 IT IS FURTHER ORDERED that Humboldt Water Systems, Inc. shall file with Docket  
8 Control as a compliance item, within eighteen (18) months of the effective date of this Decision, the  
9 Arizona Department of Environmental Quality Approval of Construction for the arsenic/nitrate  
10 treatment system described herein.

11 IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., shall continue to coordinate  
12 the reading of its well meters and individual customer meters on a monthly basis and report this data  
13 in its Annual Reports on a going-forward basis. Humboldt Water Systems, Inc., shall collect the data  
14 needed to accurately complete the water use data sheets contained in the Annual Report form.  
15 Further, in the event the water loss reported in any future Annual Report is greater than 10 percent,  
16 the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less  
17 than 10 percent, and it should submit a detailed cost benefit analysis to support its opinion. In no  
18 case shall the Company allow water loss to be greater than 15 percent. The water loss reduction  
19 report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no  
20 later than April 30 of the year following the excessive water loss.

21 IT IS FURTHER ORDERED that Humboldt shall use the depreciation rates in the schedule  
22 attached hereto as Exhibit B.

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24 ...

25 ...

26 ...

27 ...

28 ...

IT IS FURTHER ORDERED that Humboldt Water Systems, Inc., shall file with Docket Control, as a compliance item in this docket, within forty-five (45) days of the effective date of this Decision, at least three Best Management Practices in the form of tariffs that substantially conform to the templates (located on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>) created by Staff, for the Commission's review and consideration. Further, Humboldt Water Systems, Inc., shall, at a maximum, choose no more than two of the Best Management Practices from the Public Awareness/Public Relations or Education and Training categories and the Company may request cost recovery of actual costs associated with the implementation of the BMPs in its next general rate application.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_ 2014.

JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_  
YBK:tv



1 SERVICE LIST FOR:

HUMBOLDT WATER SYSTEMS, INC.

2 DOCKET NOS.:

W-02197A-12-0410 and W-02197A-13-0115

3  
4 Timothy L. Kylo, President  
Humboldt Water Systems, Inc.  
5 P.O. Box 10593  
Sedona, AZ 86339

6 Janice Alward, Chief Counsel  
7 Legal Division  
ARIZONA CORPORATION COMMISSION  
8 1200 W. Washington Street  
Phoenix, Arizona 85007

9 Steven M. Olea, Director  
10 Utilities Division  
ARIZONA CORPORATION COMMISSION  
11 1200 W. Washington Street  
Phoenix, Arizona 85007

**EXHIBIT A****Table E. Finance Related Capital Costs**

Description	Company			
	Unit Cost (Note 1)	# of Units	Total	Staff's Adjustment
<b>Arsenic Treatment Plant</b>				
SE-100 Pressure Media Filter	\$70,864	1		
Startup & Misc	\$6,100	1		
Subtotal			\$76,964	
<b>Nitrate Treatment Plant</b>				
SE-100 Ion Exchange System	\$70,864	1		
Startup	\$6,100	1		
Subtotal			\$76,964	
<b>Arsenic/Nitrate Treatment Plant Subtotal</b>	\$153,928	-		
<b>Engineering and Permits</b>		-	\$20,000	
<b>Building to House Treatment Plant</b>		1	\$45,600	
<b>Plumbing and Electrical for Treatment System</b>		-	\$12,500	
<b>Arsenic/Nitrate Treatment Total</b>	\$232,028	-		
<b>Booster Station</b>				
Goulds Aqua Force 3 Pump System or equivalent		1	\$63,500	
<b>Isolation Valves in Distribution System</b>				
8 valves	\$750	8	\$6,000	
<b>Total</b>			\$301,528	

**EXHIBIT B****Table B. Depreciation Rate Table for Water Companies**

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
<b>310.1</b>	<b>Solar System</b>	<b>15</b>	<b>6.67</b>
<b>311</b>	<b>Pumping Equipment</b>	<b>8</b>	<b>12.5</b>
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
<b>334</b>	<b>Meters</b>	<b>12</b>	<b>8.33</b>
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00